

Audit

Report



OFFICE OF THE INSPECTOR GENERAL

**NATIONAL DEFENSE STOCKPILE TRANSACTION FUND
FINANCIAL STATEMENTS FOR FY 1992**

Report No. 93-139

June 30, 1993

Department of Defense

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A&F00-07-1802

Acronyms

DLA
FMFIA
OMB

Defense Logistics Agency
Federal Managers' Financial Integrity Act
Office of Management and Budget



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

June 30, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the National Defense Stockpile Transaction Fund
Financial Statements for FY 1992 (Report No. 93-139)

We are providing this audit report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General to render an opinion on the fairness of financial statements. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations.

Although we were able to evaluate the internal controls and compliance with laws and regulations, we were unable to express an opinion on the financial statements. We are disclaiming an opinion on the National Defense Stockpile Transaction Fund financial statements because of a scope limitation for which we were unable to apply other auditing procedures. Specifically, the Defense Logistics Agency (DLA) could not provide adequate documentation to support the \$4.1 billion dollar inventory. Without establishing the value of the inventory, we could not satisfy ourselves that the total assets and the cost of goods sold were accurately stated. In addition, the DLA did not provide us the required management and legal representation letters. The failure of management to provide the letters also constitutes a limitation of scope sufficient to compel us to disclaim an opinion.

We noted no internal control deficiencies or instances of noncompliance with laws and regulations that would materially affect the financial statements. Accordingly, Parts II and III of this report contain no findings or recommendations requiring management comments.

The courtesies extended to the audit staff during the audit are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682) or Mr. John A. Richards, Project Manager, at (703) 693-0451 (DSN 223-0451). The distribution of this report is listed in Part IV, Appendix C.

A handwritten signature in cursive script, reading "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 93-139
(Project No. 2FG-2007)

June 30, 1993

AUDIT REPORT ON THE NATIONAL DEFENSE STOCKPILE TRANSACTION FUND FINANCIAL STATEMENTS FOR FY 1992

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires an annual audit of revolving funds such as the National Defense Stockpile Transaction Fund. The National Defense Stockpile Transaction Fund is part of the consolidated Defense Logistics Agency (DLA) Revolving Funds. The William Langer Jewel Bearing Plant Revolving Fund makes up the remainder of the DLA Revolving Funds. The National Defense Stockpile Transaction Fund (the Fund) represents over 99 percent of the DLA Revolving Funds' total assets and net position.

The Fund was established by the Strategic and Critical Materials Stock Piling Act (50 U.S.C. § 98) of 1979. By Executive Order 12626 and Public Law (P.L.) 100-180, management responsibility was transferred from the General Services Administration to the Department of Defense effective July 3, 1988. Within the Department of Defense, the DLA is the Fund manager responsible for the financial statements for the Fund, the William Langer Bearing Plant, and the DLA Revolving Funds. The DLA Defense National Stockpile Center (the Stockpile Center) is the manager of the Fund's day-to-day operations. The Stockpile Center administers the acquisition, storage, management, and disposal of the strategic and critical inventory essential to the military and industrial requirements of the United States in times of national emergency. As of September 30, 1992, the Fund reported assets of \$4.4 billion and liabilities of \$95.7 million.

Objectives. The primary objective of the audit was to determine whether the Fund financial statements were presented fairly in accordance with generally accepted accounting principles for Federal entities. We evaluated the internal control structure established for the Fund and assessed compliance with laws and regulations that could have a material effect on the financial statements. We also determined the reliability and usefulness of financial information reported to the Office of Management and Budget (OMB), the Department of the Treasury of the United States, the Department of Defense, and Fund management.

Independent Auditor's Opinion. We are issuing a Disclaimer of Opinion on the financial statements. The DLA could not provide documentation to support the inventory value recorded on the financial statements for the Fund. Inventory was valued on the Statement of Financial Position at \$4.1 billion, which is 94 percent of total assets. Although we were not able to satisfy ourselves regarding the value of the inventory, through our auditing procedures we were able to determine that the on-hand quantities were accurate. In addition, we are disclaiming an opinion on the financial statements because we were not provided the necessary management and legal representation letters. Such letters would represent management's assertion that the financial statements are complete and accurately presented as of September 30, 1992. The failure of management to provide the letters constitutes a limitation of the scope sufficient to compel us to disclaim an opinion.

Internal Controls. Our review of internal controls for the Fund did not disclose any material internal control weaknesses as defined in P.L. 97-255, "Federal Managers' Financial Integrity Act," September 8, 1982; OMB Circular No. A-123, "Internal Control Systems," August 4, 1986; and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We also did not identify any weaknesses that we consider to be reportable under standards established by OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. See Part II for a description of the controls we assessed.

Compliance with Laws and Regulations. The results of our tests of transactions indicated that with respect to the items tested, the Stockpile Center complied in all material respects with policies, laws, and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the Stockpile Center had not complied in all material respects. Part III contains our report on compliance with laws and regulations. Appendix A in Part IV lists the laws and regulations tested.

Usefulness of Financial Statements. The reliability and usefulness of the financial statements for the Fund are questionable. Since most of the inventory commodities were purchased over 40 years ago, the historical value of the inventory listed on the financial statements is not useful. The historical cost greatly understates the current value of those commodities. With the current trend toward selling off those commodities, it would greatly enhance the usefulness of the financial statements for the statements to show the likely amount of revenue (i.e. current market value) that would result from the sales of the commodities. Although the use of current market value within the body of the financial statements is presently not acceptable by either generally accepted accounting principles or DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983, a footnote to the inventory line entry could provide the user the necessary information. In addition, the operating and maintenance expenses are not included in the Statement of Operations or in the Footnotes. Therefore, the total cost involved to operate this fund is not clearly shown to enable the user to see how efficiently the Fund is operating. The DLA, however, has shown the amount in the Overview to the Financial Statements.

Management Comments. The Director, DLA, received drafts of reports on internal controls and compliance with laws and regulations and concurred with the facts presented. See Part VI for the complete text of management comments.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

**Part I - Independent Auditor's Opinion
on the Financial Statements**

Introduction

The National Defense Stockpile Transaction Fund (the Fund) is one of two funds of the Defense Logistics Agency Revolving Funds. The other fund is the William Langer Jewel Bearing Plant Revolving Fund. The Fund was established by the Strategic and Critical Materials Stock Piling Act (50 U.S.C. § 98) of 1979. By Executive Order 12626 and Public Law 100-180, management responsibility was transferred from the General Services Administration to the Department of Defense effective July 3, 1988. Within the Department of Defense, the Defense Logistics Agency (DLA) is the fund manager responsible for the financial statements for the Fund, the financial statements of the the William Langer Jewel Bearing Plant, and the principal statements of the DLA Revolving Funds. Primary management responsibility for day-to-day operations of the Fund is assigned to the DLA Defense National Stockpile Center,¹ which administers the acquisition, storage, management, and disposal of strategic and critical inventory essential to the military and industrial requirements of the United States in times of national emergency. The strategic and critical inventory commodities are stored at 94 locations in Government agency storage facilities. As of September 30, 1992, the Fund had assets of \$4.4 billion and liabilities of \$95.7 million.

The Chief Financial Officers Act of 1990 requires annual audits of funds such as the National Defense Stockpile Transaction Fund. Our responsibility is to express an opinion on the Fund's financial statements based on our audit.

Scope

We attempted to audit the Financial Statements of the National Defense Stockpile Transaction Fund as of September 30, 1992. The Financial Statements include the Statement of Financial Position, Statement of Operations (and Changes in Net Position), Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Footnotes and the Overview to the financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements, including accompanying Footnotes. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We developed client profiles for the Defense National Stockpile Center and developed cycle memorandums that assessed the internal control structure for the Fund Balances with Treasury, inventory, and capital assets. Also, we performed substantive testing of each financial statement account. We believe that our audit efforts provide a reasonable basis for our results. This financial statement audit was made during the period April 1992 through April 1993. See Appendix B of Part IV for the organizations visited or contacted.

¹ While the organization is called the Defense National Stockpile Center, the Fund is the National Defense Stockpile Transaction Fund

Independent Auditor's Opinion on the Financial Statements

Limitations on scope impeded our attempts to audit the statements. The DLA could not provide cost documentation to support the \$4.1 billion inventory. Specifically, reliable evidence supporting the inventory acquired prior to 1988 was no longer available. Although we could verify the existence of the inventory items, we could not satisfy the auditing requirements to validate the associated cost. Therefore, we could not verify over 90 percent of the total assets or 80 percent of the expenses (i.e. cost of goods sold) shown on the financial statements. Also, we requested management and legal representation letters from the Director, DLA. Because management failed to provide the letters, there was a further limitation on scope.

Auditing Standards

Except where scope limitations existed, we conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund's Financial Statements are free of material misstatements.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Joint Financial Management Improvement Program principals, based on advice from the Board. In the interim, Federal agencies are to use a comprehensive basis of accounting as defined in OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992. The summary of significant policies included in the Notes to the Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Fund's significant assets, liabilities, net position, results of operations, cash flows, and reconciliation to the budget.

Disclaimer of Opinion

Since the DLA could not provide adequate documentation to support the value of the inventory, and we were not able to apply other auditing procedures to determine the value, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements. We also requested management and legal representation letters from the DLA on March 25, 1993. The representation letters are part of the evidential matter

Independent Auditor's Opinion on the Financial Statements

necessary to afford a reasonable basis for our opinion on the financial statements. We have not received the letters: specifically, the Director, DLA, and DLA legal counsel have not responded. The failure of management to provide the letters constitutes another scope limitation and a further basis for disclaiming an opinion on the financial statements.

Additional Information

During the course of the audit we reported deficiencies to DLA management through briefings and in the form of a memorandum. Suggested corrective actions were provided to management in the memorandum dated May 5, 1993.

Part II - Internal Controls

Introduction

We have audited the internal control structure of the National Defense Stockpile Transaction Fund (the Fund) for the year ended September 30, 1992.

Defense Logistics Agency (DLA) management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

- o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

- o Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

- o Transactions are executed in compliance with applicable laws and regulations.

- o Data that support performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Objectives and Scope

An audit objective was to determine whether there were adequate internal controls to ensure the financial statements were free of material error. In planning and performing our audit of the financial statements of the Fund for the year ended September 30, 1992, we evaluated the internal control structure. The purposes of this evaluation were to determine our auditing procedures for expressing our opinion on the financial statements and to determine whether the internal control structure provided reasonable assurance that the financial statements were free of material misstatements. We obtained an understanding of the internal control policies and procedures and assessed the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

We reviewed the internal controls for the Fund for any material weaknesses as identified in Public Law 97-255, "Federal Managers' Financial Integrity Act," September 8, 1982, Office of Management and Budget (OMB) Circular No. A-123, "Internal Control Systems," August 4, 1986, and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987.

For the purpose of this report, we have classified the significant internal control structure policies and procedures into the following categories or cycles.

- o Inventory: policies, procedures, and internal controls over the acquisition, disposal, and maintenance of the inventory.

- o Cash: policies, procedures and internal controls over the Fund's receipt, disbursement, and control of cash.

- o Equity: policies, procedures, and internal controls over the processing of financial transactions that affect the equity accounts.

- o Financial Reporting: policies, procedures, and internal controls over the preparation of the financial statements.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatements.

Prior Audit Coverage

The Inspector General, Department of Defense, has conducted two reviews relating to the Defense National Stockpile Center (the Stockpile Center).

In March 1989, the Inspector General, Department of Defense, issued Audit Report No. 89-061, "Inventory Records of the National Defense Stockpile of Strategic and Critical Materials." The objective of the audit was to determine the accuracy of the quantitative data in the inventory records of the Stockpile as of March 1988. The audit revealed that although procedures and controls for ensuring the accuracy of the Stockpile Center inventory records needed improvement, the quantitative data in the inventory records were essentially accurate. Our review revealed only minor discrepancies on the inventory records and improved controls over ensuring accuracy of inventory records.

During the first half of FY 1992, the Inspector General, Department of Defense, issued Audit Report No. 92-141, "National Defense Stockpile Transaction Fund." The audit showed that the financial status of the Fund as reported to Congress for FYs 1989 and 1990 was inaccurate. The audit recommended that procedures be developed to better disclose the financial status of the Fund to Congress. That audit and review identified no material internal control weaknesses related to procedures for reporting the financial status of the Fund to Congress.

Results of Audit

Internal controls were adequate for ensuring the financial statements were free of material error. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the statements being audited, may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe there is reasonable assurance that the internal control structure meets the intended internal control objectives.

Management Comments

We received comments on the draft of Part II from the Director, DLA who concurred with the facts presented. See Part VI for the complete text of management comments.

Part III - Compliance with Laws and Regulations

Introduction

We tested the Defense Logistics Agency (DLA) Defense National Stockpile Center operations for compliance with applicable laws and regulations as they pertain to the National Defense Stockpile Transaction Fund (the Fund) financial statements for the fiscal year ended September 30, 1992.

Objectives and Scope

An audit objective was to determine whether the DLA Defense National Stockpile Center activities were conducted in compliance with applicable laws and regulations to ensure that the financial statements were free of material misstatements. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations, that cause us to conclude that the aggregation of the material misstatements resulting from those failures or violations is material to the financial statements, or that the sensitivity of the matter would cause it to be perceived as significant by others.

The DLA is responsible for compliance with laws and regulations applicable to the Fund. To obtain reasonable assurance about whether the financial statements were free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements, and with certain other laws and regulations designated by the Office of Management and Budget (OMB) and the DoD. See Part IV, Appendix A, for applicable laws and regulations we tested. As part of our audit, we reviewed management's procedures for evaluating and reporting on internal controls and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA). We compared the Fund's most recent FMFIA reports with our evaluation of the entity's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Overview of Financial Statements and the Financial Statement Analysis of Attributes, Measures, and Indicators. Our objective, however, was not to provide an opinion on overall compliance with such laws and regulations.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Fund's financial statements are free of material misstatements.

Prior Audit Coverage

There have been no prior audits of compliance with laws and regulations related to the Fund's financial statements. Part II of this report shows all other audits addressing the Defense National Stockpile Center.

Results of Audit

The DLA Defense National Stockpile Center complied in all material respects with policies, laws, and regulations as they pertain to the financial statements. With respect to items not tested, nothing came to our attention that caused us to believe that the DoD Components operating the Fund had not complied, in all material respects, with the provisions identified above. Although, in certain instances the Fund did not fully comply with DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983, those instances are considered to be immaterial to the financial statements taken as a whole, and were fully documented in our memorandum to DLA management dated May 5, 1993.

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Part IV - Additional Information

Appendix A. Laws and Regulations

Strategic and Critical Materials Stock Piling Revision Act of 1979, Public Law (P.L.) 96-41

Federal Managers' Financial Integrity Act of 1982, P.L. 97-255

Debt Collection Act of 1982, P.L. 97-365

Defense Authorization Act for Fiscal Year 1987, P.L. 99-661

Prompt Payment Act of 1988, P.L. 100-496

Chief Financial Officers Act of 1990, P.L. 101-576

National Defense Authorization Act for Fiscal Years 1992 and 1993, P.L. 102-190

Executive Order 12626, Transfer of Responsibility for the Stockpile from FEMA and GSA to DoD, February 25, 1988

Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," August 1987

OMB Circular No. A-127, "Financial Management Systems," December 9, 1984

OMB Circular No. A-123, "Internal Control Systems," August 4, 1986

OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992

DoD Instruction 7220.9, "DoD Accounting Policy," October 22, 1981

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

DLA Manual 7000.1, "DLA Accounting Manual" April 2, 1985

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Army

Army Missile Readiness Command, Huntsville, AL
Construction Battalion Center, Gulfport, MS
Hawthorne Army Ammunition Plant, Hawthorne, CA
Lexington-Blue Grass Army Depot, Lexington, KY
Navajo Army Depot Activity, Flagstaff, AZ
Seneca Army Depot, Romulus, NY

Department of the Air Force

Air National Guard - Readiness Center, Office of Civil
Engineering Readiness Operations, Andrews Air Force Base, MD

Defense Agencies

Headquarters, Defense Finance Accounting Service, Washington, DC
Defense Finance and Accounting Service Center, Columbus, OH
Defense Finance and Accounting Service Center, Cleveland, OH
Defense Fuel Supply Center - Resource Special Services, Alexandria, VA
Headquarters, Defense Logistics Agency, Alexandria, VA
Headquarters, National Defense Stockpile Center, Alexandria, VA
National Defense Stockpile Center, Zone 1, New York, NY
National Defense Stockpile Center, Zone 2, Hammond, IN
National Defense Stockpile Center, Zone 3, Ft. Worth, TX
Defense Logistics Agency Depots
Baton Rouge Depot, Baton Rouge, LA
Binghamton Depot, Binghamton, NY
Casad Depot, New Haven, IN
Gadsden Depot, Gadsden, AL
Marietta Depot, Marietta, PA
Point Pleasant Depot, Point Pleasant, WV
Scotia Depot, Scotia, NY
Somerville Depot, Somerville, NJ
Stockton Depot, Stockton, CA
Tracy Defense Depot, Tracy, CA

Appendix B. Organizations Visited or Contacted

Defense Agencies (cont'd)

Voorheesville Depot, Voorheesville, NY
Warren Depot, Warren, OH

Non-Defense Federal Organizations

General Services Administration, Washington, DC
U.S. Assay Office, San Francisco, CA
U.S. Department of Energy, Oakridge, TN

Non-Government Activities

Kaiser Aluminum and Chemical Company, Gramercy, LA
Mc Alloy Inc., Charleston, SC

Appendix C. Report Distribution

Office of the Secretary of Defense

Secretary of Defense
Comptroller and Chief Financial Officer of the Department of Defense
Deputy Chief Financial Officer of the Department of Defense
Assistant Secretary of Defense (Production and Logistics)

Defense Agencies

Director, Defense Logistics Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service - Columbus Center

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
NSIAD Technical Information Center

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Defense Industry and Technology, Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Seapower, Strategic, and Critical Materials, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee and Government Operations

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**Part V - Financial Statements of the
National Defense Stockpile
Transaction Fund for FY 1992**

National Defense Stockpile Transaction Fund Financial Statements - FY 1992



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

APR 8 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of Printed Financial Statements on FY 1992
Financial Activity

Attached are printed financial statements on FY 1992 financial activity for the Department of Defense reporting entities listed below. The printed copies are bound, have a common typeset and have been edited by the Defense Finance and Accounting Service - Indianapolis Center. The attached statements encompass the following reporting entities:

- Department of the Army (all funds and accounts)
- Department of the Navy (revolving and trust funds)
- Department of the Air Force (all funds and accounts)
- Defense Logistics Agency Revolving Funds
- Pentagon Reservation Maintenance Revolving Fund
- Defense Revolving Funds (Army as Executive Agent)
- DoD Military Retirement Trust Fund
- DoD Education Benefits Fund
- National Security Education Trust Fund
- Defense Commissary Surcharge Collections Account
- Defense Security Assistance Agency

My staff is available to provide additional assistance and information, if needed. Additionally, the Department will continue to work with your staff to make such adjustments or improvements as may be identified, and appropriate, to enhance, explain, or more fairly present the assets, liabilities, and net financial position shown in the attached unaudited financial statements.

Kevin Tucker
Acting Chief Financial Officer

Attachments

***DEFENSE LOGISTICS
AGENCY***

OVERVIEW

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

Overview 3

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND FY 1992 OVERVIEW DEFENSE LOGISTICS AGENCY

The mission of the Defense National Stockpile Center (DNSC) is to provide administration of acquisition, storage, management, and disposal of the nation's strategic and critical inventory which is essential to the military and industrial requirements of the United States in times of national emergency.

The National Defense Stockpile Transaction Fund was established by the Strategic and Critical Materials Stock Piling Act (50 USC 98) of 1979. At that time all existing Government owned raw material was transferred to and capitalized in the National Defense Stockpile Transaction Fund. The Fund can receive appropriations and can retain proceeds from disposal of excess material(s). These receipts are to be used for the acquisition of new or additional material requirements as defined in the Defense Requirements Report to Congress. Public Law 100-180 and Executive Order 12626 authorized the transfer of the management of the Stockpile from the General Services Administration and the Federal Emergency Management Administration to the Department of Defense effective July 3, 1988. Within the Department of Defense, management of the Stockpile was assigned to the Defense Logistics Agency, Defense National Stockpile Center.

Stockpile material is stored at numerous locations throughout the United States, in Department of Defense, other government agency, and public storage facilities. The Defense National Stockpile Center administers the acquisition, storage, management and disposal of the Nation's inventory of strategic and critical materials essential to the military and industrial requirements of the United States in times of national emergency. As permitted and encouraged by the Act, acquisition of stockpile material can be accomplished by barter and exchange in addition to cash purchases.

In FY 1992, Congress legislated \$150 million for the acquisition program. The Defense National Stockpile Center (DNSC) successfully accomplished this program by obligating \$149.9 million for acquisition of strategic and critical materials, mobilization studies, and service contracts in accordance with the Congressionally approved Annual Material Plan (AMP).

In FY 1992 Congress also authorized \$150 million of material to be disposed. The DNSC disposed of \$138.8 million of excess materials which exceeded the FY 1991 disposals by 60 percent. The material disposed of was legislatively detailed in the FY 1992 Defense Authorization Bill and in accordance with the Congressionally approved AMP.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

4 Overview

DNSC FY 92 Overview - Defense Logistics Agency

In FY 1992 Congress enacted a recession bill which rescinded \$230 million of the National Defense Stockpile Transaction Fund cash balance.

Operating costs of the National Defense Stockpile are appropriated to the Defense Logistics Agency (DLA) for the Defense National Stockpile Center (DNSC). Salaries and expenses for the DNSC are legislatively excluded from the National Defense Stockpile Transaction Fund. In FY 1992, \$30.7 million was obligated in the Operations and Maintenance (O&M) account to support the National Defense Stockpile. The O&M costs are excluded from the following financial performance measures as the Transaction Fund and the O&M account are separate accounting entities.

FINANCIAL PERFORMANCE

The following definitions of the financial performance measures stem from DoD guidance. We have provided them here to clarify the graphs on the following pages which depict these measures for the Transaction Fund.

Definitions of Financial Performance Measures:

Net Operating Costs - The total expenditures minus non-tax revenues and reimbursements received.

Current Ratio - An indicator of financial condition, it is calculated by dividing current assets by current liabilities.

Operating Results - The difference between net operating costs and appropriations.

Financial Obligations - The total of current and long-term liabilities.

Ending Fund Balance - The fund balance with the Treasury.

The Net Operating Cost in FY92 was -\$78,725,802. Conversely the Operating Result was \$78,725,802. The Financial Obligations (current and long-term liabilities), were \$95,667,661. The Ending Fund Balance was \$263,720,327. The Current Ratio was 2.986.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

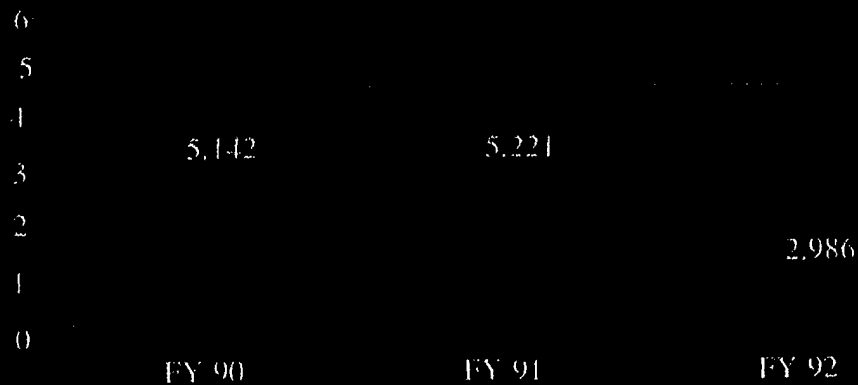
Overview 5

DNOSC FY 92 Overview - Defense Logistics Agency

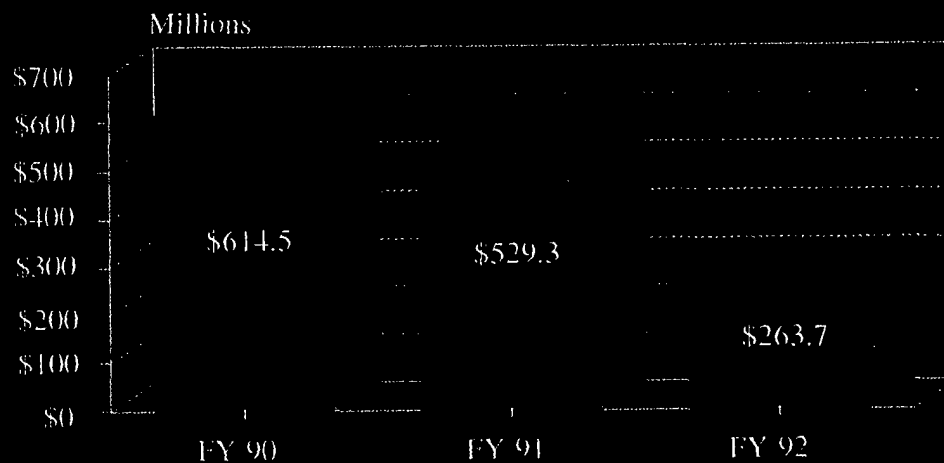
The positive Operating Result in FY92 was the result of revenues increasing from an average level of \$60 million in FY90 and FY91 to approximately \$155 million in FY92. Similarly, the positive Operating Result was the result of expenditures decreasing from an average level of \$120 million in FY90 and FY91 to approximately \$76 million in FY92. One reason why these changes have been possible is the current world situation where the threat of global conventional war has declined. Specifically: some levels inventory were determined to be higher than the foreseeable requirements and are being reduced, thus increasing revenue; and longer lead times due to smaller requirements have reduced procurements, thus decreasing expenditures. It should be noted that all revenue and expenses are not necessarily cash transactions because revenues were often realized and expenditures were often made through barter transactions including exchange material and payment-in-kind.

The Ending Fund Balance and Current Ratio decreased from prior years due to \$230 million of cash being rescinded.

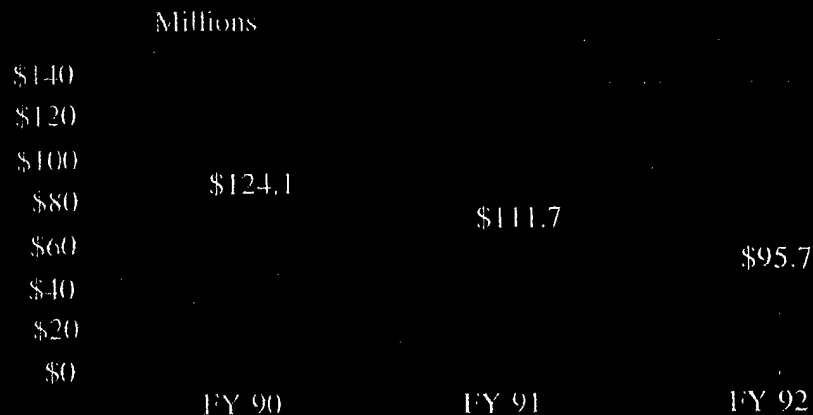
CURRENT RATIO CURRENT ASSEST / CURRENT LIABILITIES

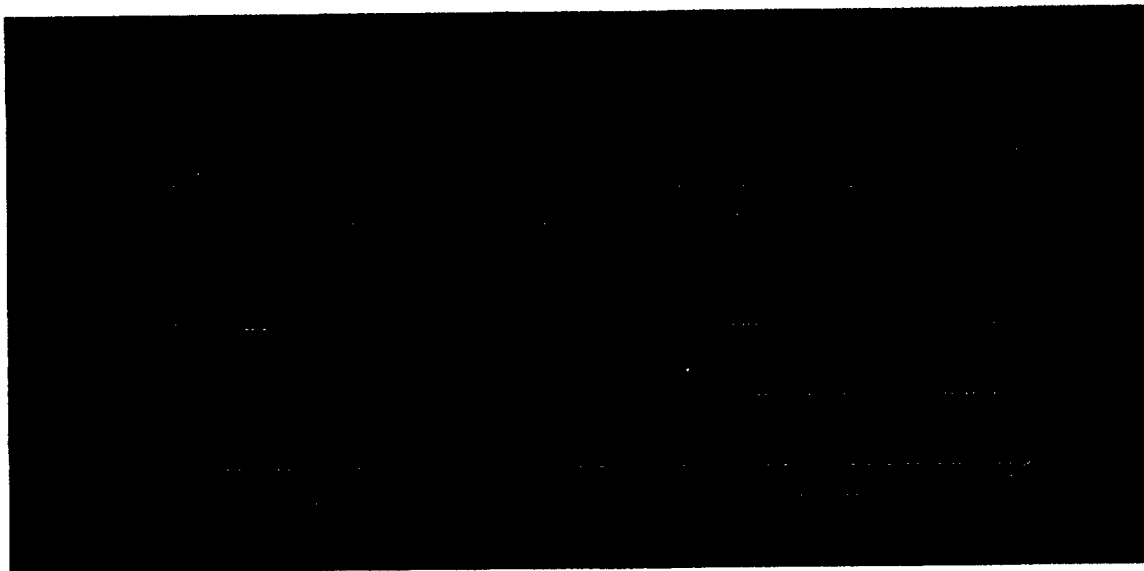
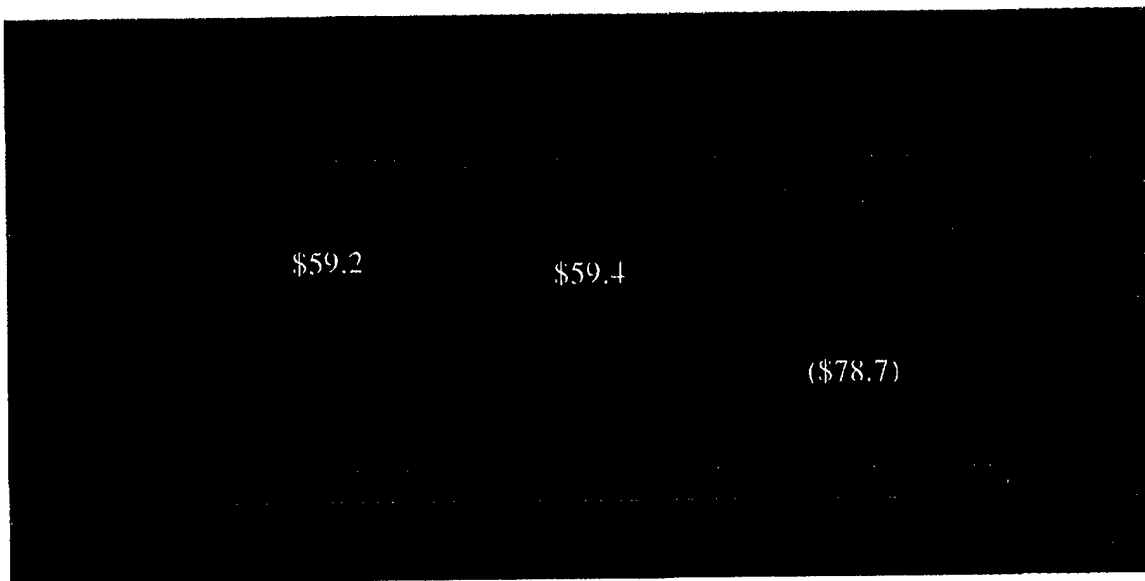


ENDING FUND BALANCE

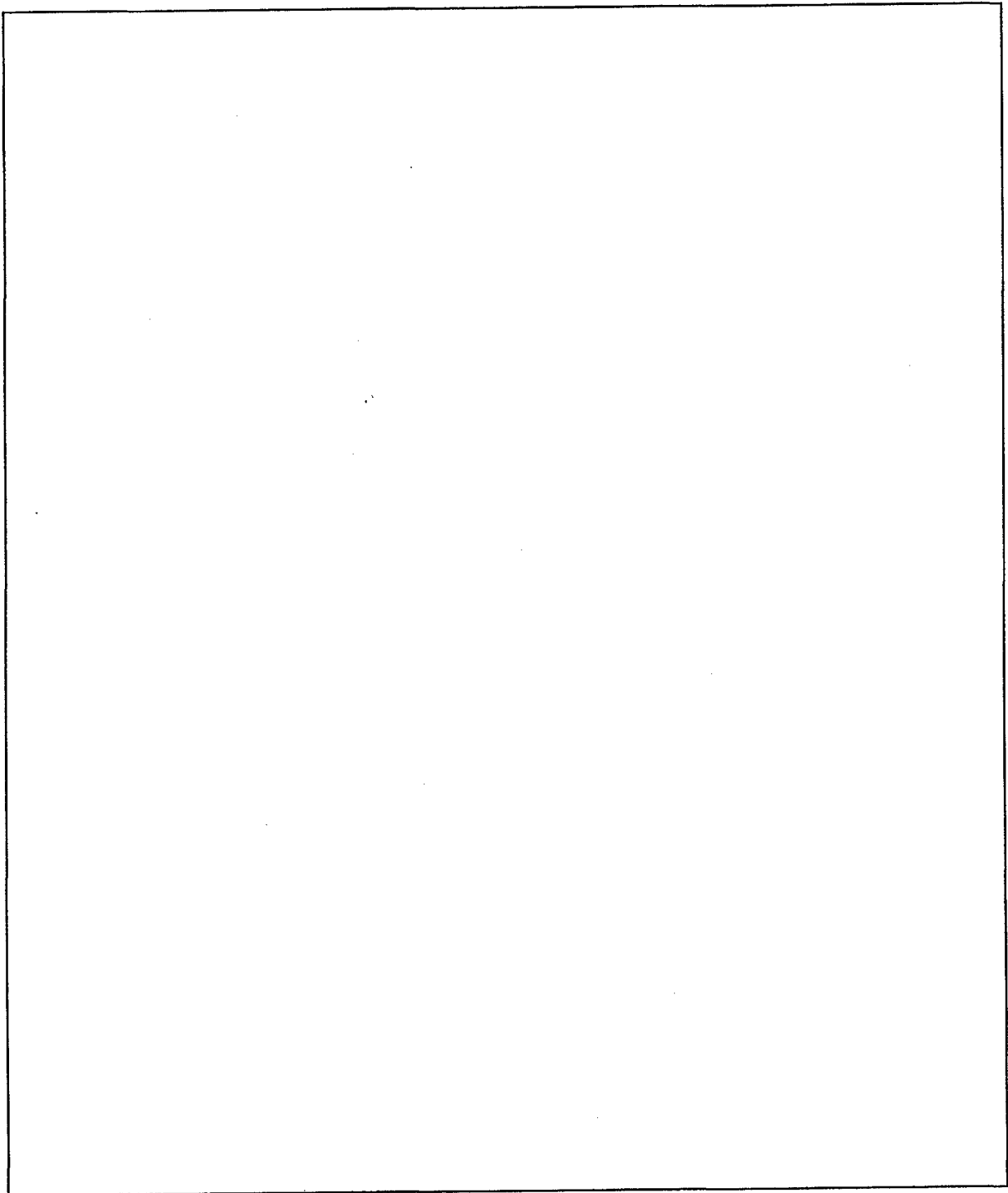


FINANCIAL OBLIGATIONS CURRENT & LONG-TERM LIABILITIES

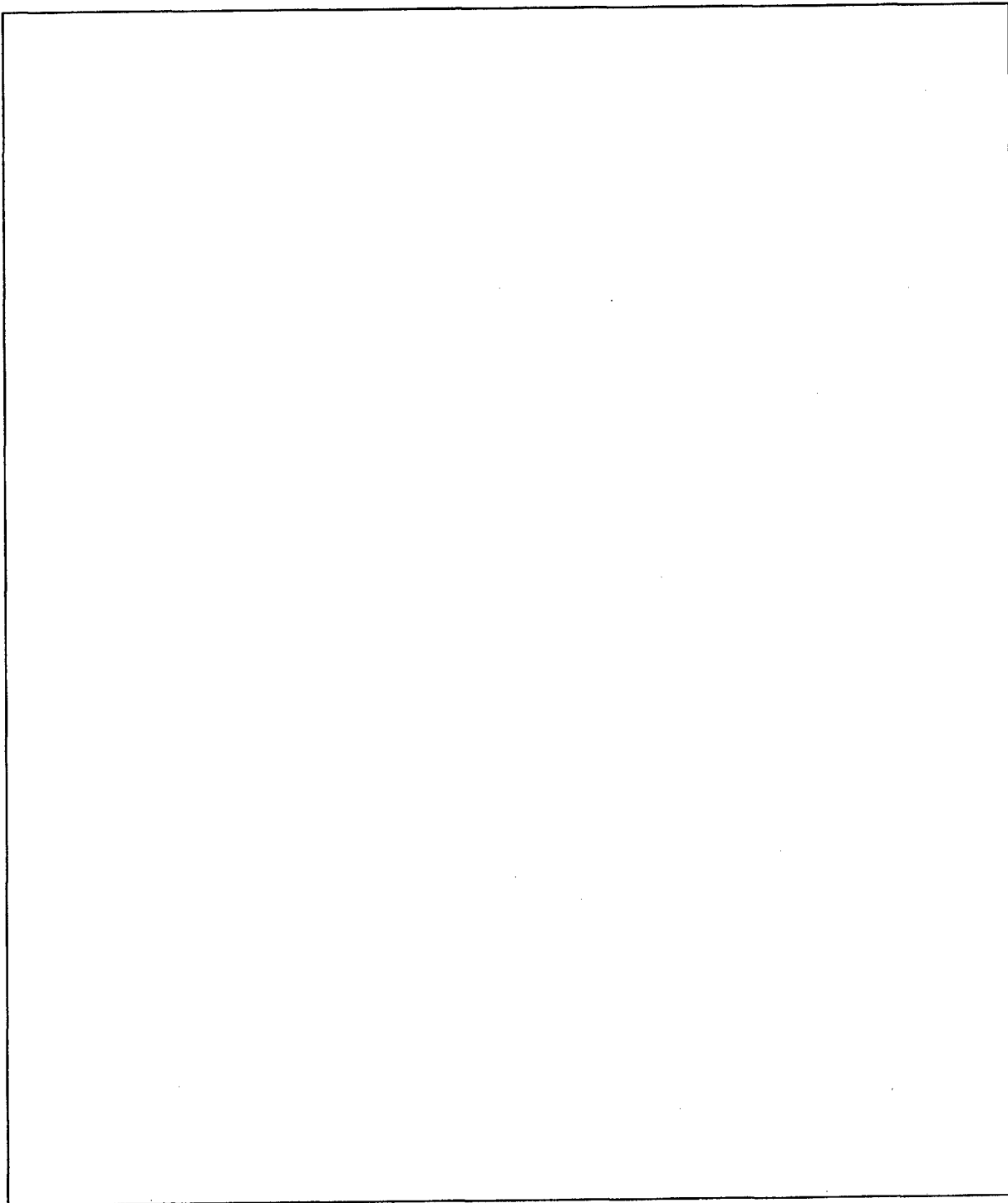




National Defense Stockpile Transaction Fund Financial Statements - FY 1992



National Defense Stockpile Transaction Fund Financial Statements - FY 1992



***DEFENSE LOGISTICS
AGENCY
NATIONAL DEFENSE
STOCKPILE
TRANSACTION FUND

FINANCIAL STATEMENTS***

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

Financial Statements 15

Department/Agency: Defense Logistics Agency Revolving Funds
 Reporting Entity: Defense National Stockpile
 Statement of Financial Position
 as of September 30, 1992
 (Dollars)

ASSETS	1992
1. Financial Resources:	
a. Fund Balances with Treasury (Note 6)	\$263,720,327
b. Cash (Note 6)	
c. Foreign Currency (Note 6)	
d. Other Monetary Assets	
e. Investments, Non-Federal	
f. Accounts Receivable, Net - Non-Federal (Note 5)	7,601,082
g. Inventories Held for Sale, Net	
h. Loans Receivable, Net - Non-Federal (Note 5)	
i. Advances and Prepayments, Non-Federal	5,305,492
j. Property Held for Sale	
k. Other, Non-Federal	
l. Intragovernmental Items:	
(1) Accounts Receivable, Federal (Note 5)	9,063,208
(2) Loans Receivable, Federal	
(3) Investments, Federal	
(4) Other, Federal	
m. Total Financial Resources	<u>\$285,690,109</u>
2. Non-Financial Resources:	
a. Resources Transferable to Treasury (Note 3)	
b. Inventories Not Held for Sale	4,124,763,376
c. Property, Plant and Equipment, Net	
d. Other	
e. Total Non-Financial Resources	<u>4,124,763,376</u>
3. Total Assets	<u>\$4,410,453,486</u>
 LIABILITIES	
4. Funded Liabilities	
a. Accounts Payable, Non-Federal	(3,593,145)
b. Accrued Interest Payable	
c. Accrued Payroll and Benefits	
d. Accrued Entitlement Benefits	
e. Lease Liabilities	
f. Debt	
g. Guarantees Payable	
h. Other Funded Liabilities, Non-Federal	93,243

The accompanying notes are an integral part of these statements.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

16 Financial Statements

Department/Agency: Defense Logistics Agency Revolving Funds
Reporting Entity: Defense National Stockpile
Statement of Financial Position
as of September 30, 1992
(Dollars)

LIABILITIES Continued	1992
i. Intragovernmental Liabilities	
(1) Accounts Payable, Federal	\$128,922
(2) Debt	
(3) Deferred Revenue	99,038,641
(4) Other Funded Liabilities, Federal	
j. Total Funded Liabilities	<u>\$95,667,661</u>
5. Unfunded Liabilities:	
a. Accrued Leave	
b. Lease Liabilities	
c. Pensions and Other Actuarial Liabilities	
d. Other Unfunded Liabilities	
e. Total Unfunded Liabilities	
6. TOTAL LIABILITIES	<u>\$95,667,661</u>
NET POSITION	
7. Fund Balances:	
a. Revolving Fund Balances	4,314,785,824
b. Trust Fund Balances	
c. Appropriated Fund Balances	
d. Total Fund Balances	<u>\$4,314,785,824</u>
8. Less Future Funding Requirements	
9. Net Position (Note 16)	<u>\$4,314,785,824</u>
10. Total Liabilities and Net Position	<u>\$4,410,453,485</u>

The accompanying notes are an integral part of these statements.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

Financial Statements 17

Department/Agency: Defense Logistics Agency Revolving Funds
 Reporting Entity: Defense National Stockpile
 Statement of Operations (and Changes in Net Position)
 for Period Ended September 30, 1992
 (Dollars)

REVENUES AND FINANCING SOURCES

	1992
1. Appropriations Expensed	
2. Revenues from Sales of Goods	
a. To the Public	
b. Intragovernmental	\$154,495,961
3. Interest and Penalties, Non-Federal	
4. Interest, Federal	
5. Taxes	
6. Other Revenues and Financing Sources	
7. Less: Taxes and Receipts Returned to the Treasury	
8. Total Revenues and Financing Sources	<u>\$154,495,961</u>

EXPENSES

9. Cost of Goods or Services Sold	
a. To the Public	
b. Intragovernmental	62,479,893
10. Program or Operation Expenses	13,290,266
11. Depreciation	
12. Bad Debts and Write-offs	
13. Interest	
a. Federal Financing Bank/Treasury Borrowing	
b. Federal Securities	
c. Other	
14. Other Expenses	
15. Total Expenses	<u>\$75,770,159</u>
16. Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments	78,725,803
17. Plus (Minus) Adjustments:	
a. Extraordinary Items	
b. Prior Period Adjustments	
18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses	<u>\$78,725,803</u>
19. Plus: Unfunded Expenses	
20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	<u>\$78,725,803</u>

The accompanying notes are an integral part of these statements.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

18 Financial Statements

Department/Agency: Defense Logistics Agency Revolving Funds
Reporting Entity: Defense National Stockpile
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Dollars)

EXPENSES Continued	1992
21. Net Position, Beginning Balance	\$4,236,060,021
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	78,725,803
23. Plus (Minus) Equity Transfers	<u>\$4,314,785,824</u>
24. Net Position, Ending Balance	<u><u>\$4,314,785,824</u></u>

The accompanying notes are an integral part of these statements.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

Financial Statements 19

Department/Agency: Defense Logistics Agency Revolving Funds
 Reporting Entity: Defense National Stockpile
 Statement of Cash Flows (Indirect)
 for the Period Ended September 30, 1992
 (Dollars)

Cash Flows from Operating Activities:	1992
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$78,725,803</u>
Adjustments affecting Cash Flow:	
2. Appropriations Expensed	
3. Decrease (Increase) in Accounts Receivable	17,170,095
4. Decrease (Increase) in Loans Receivable	
5. Decrease (Increase) in Other Assets	(135,448,944)
6. Increase (Decrease) in Accounts Payable	(4,344,113)
7. Increase (Decrease) in Debt	
8. Increase (Decrease) in Other Liabilities	(11,630,611)
9. Depreciation and Amortization	
10. Other Unfunded Expenses	
11. Other Adjustments	<u>(20,237)</u>
12. Total Adjustments	<u>(\$134,273,810)</u>
13. Net Cash Provided (Used) by Operating Activities	<u>(\$55,548,008)</u>
Cash Flows from Non-Operating Activities:	
14. Proceeds from Sales of Investments	
15. Proceeds from Sales of Property, Plant and Equipment	
16. Purchases of Investments	
17. Purchases of Property, Plant and Equipment	
18. Net Cash Provided (Used) by Non-Operating Activities	<u> </u>
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19. Appropriations (Current Warrants)	
20. Add:	
a. Restorations	
b. Transfers of Cash from Others	
21. Deduct:	
a. Withdrawals	
b. Transfers of Cash to Others	(230,000,000)
22. Net Appropriations	<u>(\$230,000,000)</u>

The accompanying notes are an integral part of these statements.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

20 Financial Statements

Department/Agency: Defense Logistics Agency Revolving Funds
Reporting Entity: Defense National Stockpile
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Dollars)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES Continued	1992
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	
28. Net Cash Provided (Used) by Financing Activities	(\$230,000,000)
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	(285,548,008)
30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	549,268,335
31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$263,720,327</u>

The accompanying notes are an integral part of these statements.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

Financial Statements 21

Department/Agency: Defense Logistics Agency Revolving Funds
Reporting Entity: Defense National Stockpile
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1992
(Dollars)

Program Name (s)	BUDGET			ACTUAL
	Resources	Obligations		Expenses
		Direct	Reimbursed	
	\$150,253,653	\$150,253,653		\$75,770,158
Totals	<u>\$150,253,653</u>	<u>\$150,253,653</u>	<u></u>	<u>\$75,770,158</u>

Budget Reconciliation

A. Total Expenses	\$75,770,158
B. Add:	
(1) Capital Acquisitions	\$7,988,760
(2) Loans Disbursed	
(3) Other Expended Budget Authority	
C. Less:	
(1) Depreciation and Amortization	
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	18,757
D. Expended Appropriations	\$133,740,161
E. Less Reimbursements	58,716,574
F. Expended Appropriations, Direct	<u>\$75,023,587</u>

The accompanying notes are an integral part of these statements.

***DEFENSE LOGISTICS
AGENCY
NATIONAL DEFENSE
STOCKPILE TRANSACTION
FUND***

FOOTNOTES

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

Footnotes 25

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND FOOTNOTES

NOTE 1: Accounting Entity:

The National Defense Stockpile Transaction Fund (The Fund) maintains its financial accounting records on an accrual double-entry basis in accordance with DLA Accounting and Finance Manual 7000.1. Chapter 6 of the manual, "Accounting and Reporting for the National Defense Stockpile Transaction Fund" prescribes the accounting system, chart of general ledger accounts, and policies and procedures to be used in accounting and reporting for The Fund.

The Fund exchanges commodities for payment of obligations and sells commodities for cash.

The Fund receives grants appropriated by Congress. The Fund also retains proceeds from the sale of excess material to be used for the acquisition of new or additional material considered necessary for the stockpile.

In addition to the strategic and critical materials the stockpile also consists of silver. The silver is used by the U.S. Treasury for minting commemorative coins.

Note 2: Obligation Authority

In FY 92, the obligational authority for the acquisition program was \$150 million. The Fund is subject to apportionment by the Office of Management and Budget. This apportionment represents the obligational authority limitation for the budget program authorized to begin the fiscal year. Fulfillment of the budget program is expected to be accomplished in the fiscal year for which authorized. Any unobligated amounts of the apportionment and allotments are to be cancelled and returned to the available balance of the Fund at the close of the fiscal year. In FY 92, \$149.9 million was obligated under the acquisition program.

Note 3: Inventory

The financial inventory balance of the stockpile is maintained on a laid in cost basis; that is, acquisition cost plus any fees, such as testing and upgrading, and transportation expenses necessary to bring purchased material to its storage location. The inventory balance as of 30-September 1992 was \$4.125 billion.

National Defense Stockpile Transaction Fund Financial Statements - FY 1992

26 Footnotes

Note 4: Inventory Disposals

In FY 92, \$138.8 million of inventory was disposed. Inventory disposals are accounted for as sales, and the cost of the material is removed from the inventory account and recorded as cost of sales. Gains and losses on disposal of material are accounted for as income or loss. Inventory can be disposed of as a sale for cash or by offering material in exchange of amounts due contractors for material upgraded or acquired. Exchange transactions are accounted for as exchange disposals and the original cost of the material exchanged (removed) from inventory is recorded as cost of exchange disposals. Exchange settlements liquidate an obligation for material upgrades or acquisitions as would a payment in cash and is accounted for through the budgetary accounts that effect the liquidation in the accounting records.

Note 5: Accounts Receivable - Billing and Collections

The total accounts receivable as of 30 September 1992 was \$16.7 million. All sales and disposals are billed after the sales agreement is made or as of the scheduled time for delivery or pickup of the material. When material is disposed of by exchange settlements, billing is made to the party to the exchange agreement with a simultaneous credit of the settlement as payment of the bill. The purchaser of the material is generally allowed a specified number of days in which the material is to be picked up after which time storage charges are assessed. All collections received are deposited to the Fund through a DLA Accounting and Finance Office.

For silver sales the U.S. Treasury reimburses the Fund the fair market value of the silver when the silver coins are sold.

Note 6: Cash

The cash balance as of 30 September 1992 was \$263.7 million. The Fund also has a cash available balance. Although the Fund only receives appropriated funds for grants, the Fund is considered a revolving fund. The Fund is self-sustaining through the use of sales of commodities and/or exchange and barter programs. The Fund buys and sells commodities in which the cash available balance may be affected.

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Part VI - Management Comments

Director, Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



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REFER TO

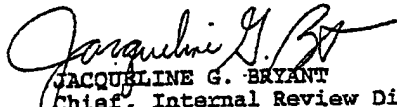
DLA-CI

27 MAY 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Reports on Internal Controls and Compliance
with Laws and Regulations for the National Defense
Stockpile Transaction Fund Financial Statements
for FY 1992 (Project No. 2FG-2007)

In response to your letter dated 14 May 1993 and the subject
report, we concur with the facts as presented.


JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

Audit Team Members

Nancy L. Hendricks	Director, Financial Management
Raymond D. Kidd	Program Director
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INTERNET DOCUMENT INFORMATION FORM

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